

Staff Report

**FEBRUARY MODIFICATION
FYs 2022-2026**

March 31, 2022



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I. Overview

The February modification to the FYs 2022-26 Financial Plan shows the city's tax and economic forecasts are reasonable and conservative. With lower rates of COVID-19 infection and hospitalization in the city and state, social distancing and mask requirements are being lifted, which assists the local economic recovery. While the pace of job gains in the city lacks that of the state and the nation, Wall Street profitability and bonus payouts are at record levels. Despite higher inflation, particularly for food, housing, and gasoline, consumers are spending on goods and services. Households are benefitting from higher wages and successive federal stimulus programs that added to savings. In the city, widespread vaccination and booster shots encouraged the rebound in residential real estate sales, but there are still issues in the commercial real estate market over leasing requirements in office buildings and the desirability of older office space compared with newer buildings with more amenities.

However, events are moving very quickly domestically and internationally since the release of the February modification, and there are more uncertainties, volatility in financial markets, and inflation than anticipated. A new omicron subvariant is present in Asia, Europe, and in the United States. Some of the uncertainties involve markets for energy and wheat due to the war on Ukraine and corporate exposure to Russian assets. At this time, households' near-term inflation expectations have risen, and the Federal Reserve expects to raise the federal funds rate an additional six times in 2022 after the 0.25 percent increase in March 2022. Locally, it may take years for city employment to exceed pre-pandemic levels and real estate vacancy rates to decline from their present record highs. Based on current data, the city has moved the time of a recovery in employment to pre-pandemic levels from the third quarter of 2024 to the first quarter of 2025. It is also not clear how long consumers will continue to spend at the current pace as higher prices for goods and services are being passed on by businesses as supply-side delays continue.

In January 2022, as part of the new administration's approach to manage the operating budget, city agencies were asked to submit plans for a Program to Eliminate the Gap (PEG) to reduce expenditures by three percent in each of FYs 2022 and 2023, and are of recurring value over the life of the financial plan. The total PEG plan, including revenue and debt service savings, is expected to lower city-funded spending by \$866 million in FY 2022 growing to more than \$1.1 billion in each of FYs 2023-26, and reduces full-time headcount by more than 7,000 in FY 2023.

The February modification contains a general reserve of \$1.1 billion in FY 2023 and \$1 billion in each of FYs 2024-26. The capital stabilization reserve adds \$250 million to each of FYs 2023-26. Departing from the city's accounting of total available reserves, we exclude the Retiree Health Benefits Trust of \$4.2 billion, which we have continued to argue should only be used to fund the growing Other Postemployment Benefits liability that is near \$118 billion. While these reserves will help to close the gaps in the outyears, the city still must address other budget items that will require further PEG plans.

Employee labor contracts are set to fully expire by 2023, which will require collective bargaining in the face of higher-than-usual inflationary pressure. We estimate that a one percent increase in wages for employees citywide, including the cost of

pensions, may near half a billion dollars for a full year. The labor reserve only includes funding for one percent wage increases in the next round of collective bargaining beginning in the third year of the contract period but provides no funding for increases in the first two years of future settlements. Of equal concern, the city has allocated federal stimulus funds to either initiate, or expand services and programs, such as universal prekindergarten. The February modification provides no additional funding for these programs beyond FY 2025.

In the February modification, the city outlined a five-year capital plan for FYs 2022-26 that totals a record high level of \$100 billion in authorized commitments. Based on our analysis, the city has not demonstrated the ability to carry out the large level of commitments projected in its current capital plan. As a result, we believe that further review is needed on the capital program as well as more consideration should be given to establishing a realistic capital program that the city can practically undertake and manage.

**FEBRUARY MODIFICATION:
THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2022-2026**

TABLE 1 (\$ in millions)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
<u>Revenues</u>					
Taxes:					
General Property	\$29,408	\$30,890	\$31,149	\$31,326	\$31,388
Other Taxes	33,701	34,261	35,904	37,595	38,626
Tax Audit Revenue	921	721	721	721	721
Miscellaneous Revenues	7,250	6,980	7,036	7,065	7,092
Unrestricted Intergovernmental Aid	1,044	--	--	--	--
Less: Intracity Revenues	(2,153)	(1,850)	(1,848)	(1,838)	(1,838)
Disallowances	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>	<u>(15)</u>
Total City Funds	\$70,156	\$70,987	\$72,947	\$74,854	\$75,974
Other Categorical Grants	1,149	1,013	1,006	1,005	1,001
Interfund Revenues	730	734	732	731	731
Federal Categorical Grants	18,014	9,385	8,644	7,928	6,902
State Categorical Grants	16,490	16,417	16,642	16,888	16,943
Total Revenues	<u>\$106,539</u>	<u>\$98,536</u>	<u>\$99,971</u>	<u>\$101,406</u>	<u>\$101,551</u>
<u>Expenditures</u>					
Personal Service	\$53,465	\$52,907	\$53,453	\$53,739	\$54,156
Other Than Personal Service	50,088	41,964	41,572	41,686	41,395
General Obligation, Lease & TFA Debt Service	6,764	7,942	8,265	8,803	9,597
Budget Stabilization & Prepayments	(2,375)	(3,732)	--	--	--
Capital Stabilization Reserve	--	250	250	250	250
General Reserve	250	1,055	1,000	1,000	1,000
Deposit to the Rainy Day Fund	<u>500</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Subtotal	\$108,692	\$100,386	\$104,540	\$105,478	\$106,398
Less: Intracity Expenditures	<u>(2,153)</u>	<u>(1,850)</u>	<u>(1,848)</u>	<u>(1,838)</u>	<u>(1,838)</u>
Total Expenditures	<u>\$106,539</u>	<u>\$98,536</u>	<u>\$102,692</u>	<u>\$103,640</u>	<u>\$104,560</u>
<u>Gap To Be Closed</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$2,721)</u>	<u>(\$2,234)</u>	<u>(\$3,009)</u>

**CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR
FISCAL YEARS 2022-2025
FEBRUARY MODIFICATION COMPARED TO NOVEMBER MODIFICATION**

TABLE 2 (\$ in millions)

	FY 2022	FY 2023	FY 2024	FY 2025
<u>Revenues</u>				
Taxes:				
General Property	\$124	\$848	\$678	\$445
Other Taxes	1,479	(413)	(468)	(238)
Tax Audit Revenue	0	0	0	0
Miscellaneous Revenues	110	449	498	498
Unrestricted Intergovernmental Aid	294	0	0	0
Less: Intracity Revenues	(69)	(401)	(398)	(394)
Disallowances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total City Funds	\$1,938	\$483	\$310	\$311
Other Categorical Grants	29	20	15	15
Interfund Revenues	1	2	2	1
Federal Categorical Grants	1,500	101	31	13
State Categorical Grants	<u>224</u>	<u>5</u>	<u>5</u>	<u>1</u>
Total Revenues	<u>\$3,692</u>	<u>\$611</u>	<u>\$363</u>	<u>\$341</u>
<u>Expenditures</u>				
Personal Service	(\$164)	(\$30)	(\$106)	(\$190)
Other Than Personal Service	1,235	925	927	1,096
General Obligation, Lease & TFA Debt Service	(27)	(53)	(70)	(77)
Budget Stabilization & Prepayments	2,767	(2,767)	0	0
Capital Stabilization Reserve	0	0	0	0
General Reserve	(50)	55	0	0
Deposit to the Rainy Day Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Subtotal	\$3,761	(\$1,870)	\$751	\$829
Less: Intracity Expenditures	<u>(69)</u>	<u>(401)</u>	<u>(398)</u>	<u>(394)</u>
Total Expenditures	<u>\$3,692</u>	<u>(\$2,271)</u>	<u>\$353</u>	<u>\$435</u>
<u>Change to the Gap Decrease/(Increase)</u>	<u>\$0</u>	<u>\$2,882</u>	<u>\$10</u>	<u>(\$94)</u>

RISKS TO THE FINANCIAL PLAN

TABLE 3 (\$ in millions, positive numbers are offsets to risks)

	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Stated Financial Plan Gap	\$0	\$0	(\$2,721)	(\$2,234)	(\$3,009)
<u>Estimation</u>					
Property Tax Revenue	150	150	200	250	300
Nonproperty Tax Revenue	500	500	250	250	300
Miscellaneous Revenue	50	75	75	75	75
Uniformed Services Overtime	<u>(573)</u>	<u>(772)</u>	<u>(780)</u>	<u>(780)</u>	<u>(780)</u>
Risk Total	\$127	(\$47)	(\$255)	(\$205)	(\$105)
Total FCB Estimated Surplus/(Gap)	\$127	(\$47)	(\$2,976)	(\$2,439)	(\$3,114)

II. The FY 2022 Budget

Compared to the November modification, the current estimate of total-funded revenue in FY 2022 represents a \$3.7 billion increase to \$107 billion from higher taxes (excluding audits) and categorical aid at \$1.6 billion and \$1.8 billion, respectively. City-funded revenue climbs by \$1.9 billion to \$70.2 billion, augmented mainly by a broad-based improvement of \$1.5 billion in nonproperty taxes. The growth in nonproperty taxes was driven by an environment that included an accommodative monetary policy, COVID-19 restrictions being removed, widespread availability of vaccines, record Wall Street profits and bonuses, households with cash from higher wages and federal stimulus programs, and a resurgence in property sales, especially residential. Based on current collections, the city's FY 2022 forecast could be exceeded by \$150 million in the property tax, \$500 million in the nonproperty taxes, and \$50 million in miscellaneous revenue.

In FY 2022, the February modification projects a surge in surplus funds of \$2.8 billion enlarging the total surplus to \$3.7 billion. The higher surplus in the current modification results from better-than-anticipated revenues and net lower city-funded expenditures, and will prepay expenses in FY 2023. Different in the February modification compared to modifications presented over the last several years is the implementation of a Program to Eliminate the Gap (PEG). The PEG plan is an important fiscal tool for identifying meaningful long-term expense savings.

In January 2022, city agencies were asked to submit PEG plans to reduce expenditures by three percent in each of FYs 2022 and 2023 that are of recurring value over the life of the financial plan. The total PEG plan, including revenue and debt service savings, is expected to lower city-funded spending by \$866 million in FY 2022 growing to more than \$1.1 billion in each of FYs 2023-26, and reduces full-time headcount by more than 7,000 in FY 2023. Supplementing the PEG plan savings in FY 2022 is a rainy day fund totaling \$1 billion and a general reserve of \$250 million to address any budget uncertainties.

REVENUES

With lower rates of COVID-19 infection and hospitalization in the city and state, social distancing and mask requirements are being lifted, which assists the local economic recovery. While the pace of job gains in the city lacks that of the state and the nation, Wall Street profitability and bonus payouts are at record levels. Despite higher inflation, particularly for food, housing, and gasoline, consumers are spending on goods and services. Households are benefitting from higher wages and successive federal stimulus programs that added to savings. In the city, widespread vaccination and booster shots encouraged the rebound in residential real estate sales, but there are still issues in the commercial real estate market over leasing requirements in office buildings and the desirability of older office space compared with newer buildings with more amenities. The city's tax and economic forecasts in the February modification are reasonable and conservative. Based on current collections, the city's FY 2022 forecast could be exceeded by \$150 million in the property tax, \$500 million in the nonproperty taxes, and \$50 million in miscellaneous revenue, as shown in Table 3 on page 5.

However, events are moving very quickly domestically and internationally since the release of the February modification, and there are more uncertainties, volatility in financial markets, and inflation than anticipated. A new omicron subvariant is present in Asia, Europe, and the United States. Some of the uncertainties involve markets for energy and wheat due to the war on Ukraine and corporate exposure to Russian assets. At this time, households' near-term inflation expectations have risen, and the Federal Reserve expects to raise the federal funds rate an additional six times in 2022 after the 0.25 percent increase in March 2022.

Plan-to-Plan Changes in FY 2022

Compared to the November modification, total revenue rises \$3.692 billion to \$106.539 billion in FY 2022 largely from more tax revenue excluding audits and categorical aid at \$1.603 billion and \$1.753 billion, respectively. The forecasts for taxes, miscellaneous receipts, and unrestricted intergovernmental aid illustrate an increase in city funds of \$1.938 billion to \$70.156 billion in FY 2022 as the city recovers from the pandemic. The figure to the right indicates that most of the \$1.753 billion of additional categorical aid is from the federal government and involves stimulus and COVID-19 funding. Between FY 2022 and FY 2023 there is a decline of \$8.629 billion in federal categorical grants.

FY 22 Revenue Changes	
November Mod to February Mod	
(\$ in millions)	
Property Tax	124
Nonproperty Taxes	1,479
Subtotal Taxes	\$1,603
Audits	0
Total Taxes	\$1,603
Intergov't Aid	294
Miscellaneous	41
City Funds	\$1,938
<u>Categorical Aid</u>	<u>1,753</u>
Federal	1,500
State	224
Other	29
Interfund	1
Total Revenue	\$3,692
Numbers may not add due to rounding.	

Within the \$1.603 billion estimate of higher taxes excluding audits, the property tax forecast increases \$124 million to \$29.408 billion from a realignment of quarterly payments, more refunds, larger prior-year accrual, and less receipts from lien sales. There is a broad-based improvement of \$1.479 billion in the nonproperty taxes excluding audits that encompasses the income, consumption, and real estate transaction taxes, which is detailed in the figure on page 8.¹ On a plan-to-plan basis, besides higher tax receipts and categorical aid, the city expects more unrestricted intergovernmental aid and miscellaneous revenue in FY 2022. As seen in the figure above, unrestricted intergovernmental aid advances \$294 million, which is in addition to \$750 million recorded in the November modification, from delays in FEMA reimbursement. From FY 2022 to FY 2023 there is a projected loss of \$1.044 billion in this aid category.

Miscellaneous Revenue

In the latest forecast, miscellaneous revenue increases \$41 million to \$5.097 billion in FY 2022. In terms of the core categories, there is higher revenue of \$27 million from licenses and fines despite slippage in general government charges.² There is no change in

¹ The real estate transaction taxes are the real property transfer and mortgage recording taxes.

² The core categories are responsible for recurring revenue growth and consist of licenses, charges for services, interest, fines, rent, and a miscellaneous category without major nonrecurring resources. Water and sewer charges, and proceeds from Health + Hospitals, housing, and the tobacco settlement are excluded.

the interest income forecast of \$9.1 million. From October to January in FY 2022, cash balances available for investment have been relatively less than in prior years during this time frame. The license category, at \$672 million, rises by \$15 million from higher revenues from mobile telecom franchises to install 5G cellular equipment and LinkNYC Wi-Fi, with a downward revision in cable television franchises. The fine category, at \$1.093 billion is raised by \$28 million in FY 2022 from higher receipts from bus lane and speed cameras, and from late penalties for both the real property income and expense and the real property transfer tax statements. The general government charges category has been negatively impacted by COVID-19 regulations that caused the temporary transfer of personnel to other duties related to the pandemic, delays in exams and classes, widespread business closures, and decreased demand by the public for use of city facilities. The FY 2022 estimate of charge revenue falls \$22 million to \$1.002 billion from reductions in fire inspections, activities from the marshals and sheriffs, garages and long-term parking, and towing by the Police Department, among other fees.

Nonproperty Taxes Excluding Audits

At the midpoint in FY 2022, and prior to the Russian invasion in Ukraine, there were a unique set of conditions that spurred growth in the nonproperty taxes excluding audits. It was an environment that encompassed: an accommodative monetary policy by the Federal Reserve, COVID-19 restrictions being removed, widespread availability of vaccines, gains in most business lines at Wall Street firms, households with cash from successive federal stimulus programs, and a resurgence in residential property sales. The slow rebound in employment from the coronavirus recession is not occurring to the same degree in all sectors of the local economy, and was not expected to do so by the city. It still depends on the extent to which work could be done remotely or a hybrid of remote and in-office activity, such as in the finance and tech industries as opposed to the leisure and hospitality industry.

The \$1.479 billion plan-to-plan improvement in the forecast of nonproperty tax revenue without audits is detailed in the figure to the right. Wall Street profits were \$50.9 billion in 2020 and \$44.9 billion through the third quarter of 2021, with a city estimate of \$55.2 billion for all of 2021. Thus far, the performance of Wall Street and the tech sector has led to higher compensation including record bonus payouts for the last two years, which is showing up in higher revenues from the personal income (\$428 million) and general corporation (\$189 million) taxes. More global assets under management and improved returns from the hedge fund industry are driving unincorporated business tax (\$215 million) collections. For the two business taxes, there is a more modest improvement in payments from companies in the nonfinance sector.

FY 22 Nonproperty Tax Changes	
November Mod to February Mod	
(\$ in millions)	
Personal income	428
General corporation	189
Unincorporated bus	215
Sales	265
Hotel occupancy	33
Commercial rent	10
Real Property Transfer	281
Mortgage recording	61
Utility	(1)
Cigarette	0
Minor	0
STAR Aid	(3)
Total Change	\$1,479
Numbers may not add due to rounding.	

Strong demand by consumers for goods despite supply-side bottlenecks, coupled with the loosening of COVID-19 restrictions on local businesses and international travel,

spurs sales and hotel occupancy tax collections and lifts their FY 2022 forecasts collectively by \$298 million. The long-term nature of commercial leases has modestly raised the FY 2022 estimate of the commercial rent tax by \$10 million to \$894 million. It is the pent-up demand, limited supply, and certainty of higher mortgage rates in 2022 that are driving residential property sales at the lower and higher ends of the market. Also contributing to the \$342 million increase in the estimates for the real property transfer and mortgage recording taxes was a strong pick-up in commercial property sales at the end of December 2021. It is likely the imminent rise in interest rates played a role in the volume of commercial transactions as well as the intent to finalize tax strategies by the end of 2021.

EXPENDITURE CHANGES IN FY 2022

The February modification projects for FY 2022, as compared to the November modification, total-funded expenditures growing by \$3.7 billion to \$106.5 billion, city-funded expenditures increasing by \$1.9 billion to \$70.2 billion, and a surge in surplus funds of \$2.8 billion enlarging the total surplus to \$3.7 billion. The higher surplus in the February modification results from better-than-anticipated revenues and net lower city-funded expenditures, and will prepay expenses in FY 2023. Different in the February modification compared to modifications presented over the last several years is the implementation of a Program to Eliminate the Gap (PEG). Absent from budget management over the last several years, the PEG plan is an important fiscal tool for identifying meaningful long-term expense savings.

In January 2022, city agencies were asked to submit PEG plans to reduce expenditures by three percent in each of FYs 2022 and 2023 that are of recurring value over the life of the financial plan. The total PEG plan, including revenue and debt service savings, is expected to lower city-funded spending by \$866 million in FY 2022 growing to more than \$1.1 billion in each of FYs 2023-26, and reduces full-time headcount by more than 7,000 in FY 2023. Supplementing the PEG plan savings in FY 2022 is \$450 million in combined reductions from the general and prior-year payables reserves, leaving in FY 2022 a general reserve of \$250 million to address any budget uncertainties that may arise along with a rainy day fund totaling \$1 billion.

Total-Funded Expenditure Change November to February Modification FY 2022

Between the November and February modifications for FY 2022, total-funded expenditures grow from \$102.847 billion to \$106.539 billion, an increase of \$3.692 billion, as shown in the figure to the right. The increase comprises \$1.938 billion of city-funded spending and \$1.754 billion in federal, state, and other funds.

November to February Modification Expenditure Change FY 2022 Total Funds (\$ in millions)	
November Modification	\$102,847
City Funds	1,938
Federal, State & Other Funds	<u>1,754</u>
Total-Funded Increase	\$3,692
February Modification	\$106,539

City-Funded Expenditure Change November to February Modification FY 2022

The February modification assumes a net increase in city-funded expenses of \$1.938 billion, bringing projected spending from \$68.218 billion in the November modification to \$70.156 billion, as shown in the figure to the right. The rise in city-funded expenses is largely the addition of \$2.768 billion of surplus funds, which brings the total FY 2022 surplus to \$3.732 billion and is used to prepay expenses in FY 2023.

Agency new needs add \$509 million to FY 2022, as shown in the figure to the right. Much of this new spending is allocated to Uniformed Services (Police, Fire Correction, and Sanitation) and the Department of Homeless Services to fund higher overtime expenditures and address rising shelter costs of \$233 million and \$132 million, respectively.

November to February Modification Expenditure Change FY 2022 City Funds (\$ in millions)	
November Modification	\$68,218
Surplus Funds	2,768
Agencies	509
PEG Plan	(829)
Prior-Year Payables	(400)
General Reserve	(50)
Budget Adjustments	(33)
Debt Service Savings	(27)
Net City-Funded Increase	\$1,938
February Modification	\$70,156

The city also increases funding to the Fair Fares program by \$15.5 million and the Summer Youth Employment Program (SYEP) by \$7.6 million in FY 2022. The Fair Fares program provides reduced-fare MetroCards to low-income subway and bus riders living below the federal poverty line.³ Previously, the city had reduced funding of this initiative due to the steep drop in public transportation ridership caused by the COVID-19 pandemic. The extra allocated funds to the SYEP expand the program to attract a younger demographic that wishes to identify potential career interests and pathways. This program also seeks to assist said demographic to engage in learning experiences that help develop their professional, social, civic, and leadership skills.

An offset to higher city-funded spending is the implementation of a new Program to Eliminate the Gap (PEG), which accounts for \$829 million in reduced expenditures.⁴ Highlighted is the Department of Education (DOE) with a PEG plan totaling \$256 million in FY 2022. These savings result from the reestimate of costs for central and administrative salaries, per session teaching, professional development, and equipment and supplies totaling \$110 million; recognition of prior-year revenue at \$55 million; school safety savings of \$39 million; allocation efficiencies summing to \$37 million; and the reevaluation of the Absent Teacher Reserve at \$15 million.⁵ The PEG plan also reduces full-time

³ As of January 2022, the U.S. federal poverty guideline used to determine financial eligibility for certain programs is \$13,590 for a one-person household.

⁴ In our analysis, we exclude from the PEG plan revenue of \$10 million and debt service savings of \$27 million in FY 2022. The city exempts from the PEG plan the Departments of Correction, and Health and Mental Hygiene, Health + Hospitals, and Office of the Chief Medical Examiner, due to the unique challenges these agencies are currently addressing.

⁵ The Absent Teacher Reserve is a term referring to teachers who are no longer appointed to a specific school but are reassigned to a school, or number of schools, within a school district, or school system throughout the school year.

headcount in FY 2022 by eliminating vacancies citywide, generating \$256 million in savings. In addition to the PEG plan, the city reduces its prior-year payables and general reserves by a combined \$450 million. After the drawdown, the general reserve remains funded at \$250 million to address any budget uncertainties that may arise. Lastly, the city makes budget adjustments of \$33 million and recognizes debt service savings of \$27 million.

Federal, State, and Other-Funded Expenditure Changes November to February Modification FY 2022

The February modification contains \$36.383 billion in federal, state, and other-funded aid in FY 2022, an increase of \$1.754 billion compared to the November modification. Federally-funded expenditures rise to \$18.014 billion from \$16.513 billion, or \$1.5 billion, with the increase mostly containing COVID-19 related expenses. Separate from COVID-19, the extra federal funds provide monies towards storm damages caused by Super Storm Sandy and Hurricane Ida, urban area security, community development, terrorism prevention and homeland security, traffic management, the Supplemental Nutrition Assistance Program, and other various programs. The February modification projects state aid of \$16.49 billion, an increase of \$225 million over the November modification, which is used to supplement charter school tuition and leases, and to support prekindergarten, social services, and various other service programs and initiatives.

Since the first COVID-19 cases were reported in March 2020, the federal government's response has been vast. The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided \$2.2 trillion of direct economic aid to the American people negatively impacted by the COVID-19 pandemic. The CARES Act established the \$150 billion Coronavirus Relief Fund (CRF) to deliver payments to state, local, and tribal governments navigating the impact of the pandemic. The CRF allocated \$5.1 billion to the state and \$1.4 billion to the city. In addition to the CARES Act, the American Rescue Plan Act (ARPA) distributed \$12.75 billion to the state and \$5.6 billion to the city to provide a broad variety of assistance, including housing and economic.

The February modification assumes \$1.361 billion of additional funds designated for pandemic relief above stimulus aid already received.⁶ Much of these funds, \$1.043 billion, are reimbursements from the Federal Emergency Management Agency (FEMA) for COVID-19 testing, vaccination programs, and testing and tracing activities that will continue till July 1, 2022, under an extended relief program. Under normal circumstances, FEMA reimburses states and cities 75 percent of costs incurred from storms and other acts of nature. In 2021, the federal government directed FEMA to increase that share to 100 percent to provide much needed fiscal relief of expenses incurred from the pandemic.

In addition to the FEMA reimbursements, the city realizes \$319 million of stimulus aid with about half, \$152 million, as an Emergency Solutions Grant. This grant through the CARES Act helps to prevent a surge in COVID-19 cases among sheltered and

⁶ Of this amount, about \$109 million is rolled into FY 2022 from the November modification.

unsheltered people experiencing homelessness and very low-income households at risk of homelessness. The ARPA delivers about \$94 million to mostly facilitate vaccine booster shots and support the city's 311 information system. On top of this, the city also recognizes \$51 million of transit funding for the Staten Island Ferry.

III. The FYs 2023-26 Financial Plan

Beyond FY 2022, there will not be the benefits from an accommodative monetary policy and large amounts of federal aid, but coronavirus variants may still be present. It is uncertain how long record inflation, higher near-term inflationary expectations by households, spikes in commodity prices, and volatility in the financial markets will persist. Some events are ramifications from the Russian invasion of Ukraine, such as gyrations in energy prices. Total revenue is projected to fall 1.2 percent on an average annual basis during the plan period of FYs 2022-26 primarily from less federal categorical and unrestricted aid, expectations of modest growth in the property and nonproperty taxes excluding audits, and a limited boost from miscellaneous receipts.

The February modification assumes a balanced budget in FY 2023 with total-funded spending of \$98.5 billion, a decrease of \$2.3 billion compared to the November modification. City-funded spending is projected at \$71 billion, which is \$2.4 billion less than the November modification. Lower expenditures in FY 2023 are primarily due to the use of \$3.7 billion of surplus funds from FY 2022 to prepay expenses in FY 2023. In each of FYs 2023-26, city-funded expenditures increase to address new needs. Partly offsetting higher city-funded spending is a Program to Eliminate the Gap (PEG) that is expected to reduce expenses by more than \$1.1 billion. While the savings from the PEG plan mitigate higher spending in agencies, it falls short in reducing outyear gaps in each of FYs 2024-25. In the February modification, the budget gaps are projected at \$2.7 billion in FY 2024, \$2.2 billion in FY 2025 and \$3 billion in FY 2026.

Based on our risk analysis, we project property and nonproperty taxes, and miscellaneous revenue may be higher by a combined total ranging from \$525 million to \$725 million over FYs 2022-26, as shown in Table 3 on page 5. Our estimates of overtime costs exceed the city's projections by range of \$573 million in FY 2022 to \$780 million in FY 2026, offsetting the potential higher revenues in most years of the financial plan. We estimate the city's budget gaps could be higher by \$47 million to \$255 million over FYs 2023-26 amounting to deficits of \$47 million in FY 2023, almost \$3 billion in FY 2024, \$2.4 billion in FY 2025 and \$3.1 billion in FY 2026, as presented in Table 3 on page 5.

REVENUE GROWTH DURING FYS 2022-26

Past FY 2022, there will no longer be benefits to households and businesses from an accommodative monetary policy and large amounts of federal aid, but coronavirus variants may still be present. It is uncertain how long record inflation, higher near-term inflationary expectations by households, spikes in commodity prices including oil, and volatility in the financial markets will persist. Some events are ramifications from the Russian invasion of Ukraine, such as gyrations in energy prices. Locally, it may take years for city employment to exceed pre-pandemic levels and office vacancy rates to decline from their present record highs. Based on current data, the city has moved the time of a recovery in employment to pre-pandemic levels from the third quarter of 2024 to the first quarter of 2025. It is also not clear how long consumers will continue to spend at the current pace as higher prices for goods and services are being passed on by businesses as supply-side delays continue. On the positive side, households are benefitting from a

competitive job market that is offering higher wages while savings built-up from federal stimulus efforts are drawn down.

As seen in Table 4, total revenue falls 1.2 percent on an average annual basis during the plan period of FYs 2022-26 primarily from less federal categorical and unrestricted aid, expectations of modest growth in the property and nonproperty taxes excluding audits, and a limited boost from miscellaneous receipts. In terms of categorical aid, while state grants increase from \$16.49 billion in FY 2022 to \$16.943 billion in FY 2026, federal grants fall from \$18.014 billion in FY 2022 to \$6.902 billion in FY 2026. The projection for unrestricted intergovernmental aid is \$1.044 billion in FY 2022 and zero thereafter. During FYs 2022-26 the property and nonproperty taxes excluding audits are expected to improve 1.6 percent and 3.5 percent, respectively, on an average annual basis.

**BY FY 2026, TOTAL REVENUE FALLS FROM THE ABSENCE OF FEDERAL
STIMULUS AID, WEAKNESS IN COMMERCIAL REAL ESTATE,
AND SMALLER WALL STREET PROFITS AND BONUSES**

TABLE 4

(year-to-year percent change, \$ in millions, average annual growth rates for FYs 2022-26)

	FY 23	FY 24	FY 25	FY 26	FY 22	FY 26	FYs 22-26
Property Tax	5.0%	0.8%	0.6%	0.2%	\$29,408	\$31,388	1.6%
Nonproperty Taxes	1.7%	4.8%	4.7%	2.7%	\$33,701	\$38,626	3.5%
Subtotal Taxes	3.2%	2.9%	2.8%	1.6%	\$63,109	\$70,014	2.6%
Audits	(21.7%)	0.0%	0.0%	0.0%	\$921	\$721	(5.9%)
Total Taxes	2.9%	2.9%	2.8%	1.6%	\$64,030	\$70,735	2.5%
Intergov't Aid	(101.5%)	0.0%	0.0%	0.0%	\$1,029	(\$15)	(100.0%)
Miscellaneous	0.6%	1.1%	0.8%	0.5%	\$5,097	\$5,254	0.8%
City Funds	1.2%	2.8%	2.6%	1.5%	\$70,156	\$75,974	2.0%
Categorical Aid	(24.8%)	(2.0%)	(1.8%)	(3.8%)	\$35,653	\$24,846	(8.6%)
Interfund	0.5%	(0.3%)	(0.1%)	0.0%	\$730	\$731	0.0%
Total Revenue	(7.5%)	1.5%	1.4%	0.1%	\$106,539	\$101,551	(1.2%)

Numbers may not add due to rounding. Nonproperty taxes include STAR Aid, and a tax program starting in FY 2023.

Miscellaneous revenue rises by 0.8 percent on an average annual basis from FYs 2022-26 largely from two factors — higher interest income based on a forecast of the federal funds rate by IHS and fewer pandemic restrictions. Interest earnings are projected to rise steadily from \$9.1 million in FY 2022 to \$74.8 million in FY 2023 and \$195.8 million in FY 2026. In the near-term of the financial plan, it is higher short-term interest rates rather than more cash for investment that underlies the forecast. Miscellaneous revenue could exceed the city's forecast by \$75 million in each year of FYs 2023-26 from greater demand for in-person city services, events, and use of city properties as more social distancing and mask requirements are removed, as presented in Table 3 on page 5.

Nonproperty Taxes Excluding Audits

Over the plan period of FYs 2022-26, the nonproperty taxes excluding audits exhibit 3.5 percent growth on an average annual basis in a mixed economic outlook. Most of the growth in FY 2022 nonproperty tax revenue excluding audits has not been baselined to augment the projections for individual taxes during the plan period. For example, there are year-to-year declines in FY 2023 in the real property transfer and mortgage recording taxes as pent-up demand for residential real estate is spent. The yield of the general corporation tax is limited by the city's expectation of lower Wall Street profits after 2021 and the actuality of higher short-term interest rates, such that revenue grows 1.5 percent

on an average annual basis in the plan period. The city expects securities industry profits to decline from \$55.2 billion in 2021 to \$31.3 billion in 2022 and \$18.2 billion in 2026.

In line with smaller securities industry profits going forward after recent highs in 2020 and 2021, the city expects modest year-to-year gains in finance sector earnings as the bonus pool declines from \$42.6 billion in 2021 to \$30 billion in 2026, and yearly growth in total wage earnings slow to four percent in 2026. Personal income tax revenue (PIT) advances 3.5 percent on an average annual basis during the plan period, which is on the low-side historically, but is supported by moderate gains in total wage earnings and employment each year as job creation exceeds pre-pandemic levels by the first quarter of 2025. With the elimination of more pandemic requirements for city residents and visitors, there is a rebound in the sales and hotel occupancy taxes during FYs 2022-26 of 5.9 percent and 26.4 percent, respectively, on an average annual basis. Based on current collections and economic trends, the city's nonproperty tax forecast could be exceeded by \$500 million in FY 2023, \$250 million in both FYs 2024 and 2025, and \$300 million in FY 2026, as presented in Table 3 on page 5.

New to the financial plan are three tax programs that require the approval of the state legislature and the city council, and are estimated at \$300 million annually starting in FY 2023. The programs involve expanding the city's earned income tax credit (EITC), creating a childcare center property tax abatement, and developing a childcare business tax credit. The EITC is a refundable PIT credit for working people with low to moderate incomes, which the state allowed the city to offer in 2004 at five percent of the federal EITC. The Mayor proposes to increase the city's EITC up to 30 percent to provide a greater benefit to lower income households at a cost of \$250 million each year. The property tax abatement, estimated at \$25 million annually, allows property owners to recoup the costs of conversion, alteration or improvement of spaces to childcare centers over a five-year period. Lastly, employers who provide free or subsidized childcare for their employees at their place of business would qualify for a nonrefundable credit against their business income taxes, with an annual cost to the city of \$25 million.

Property Tax

The latest property tax forecast reflects current-year collections for FY 2022, and the rebound in market value and taxable billable assessed value citywide and by class for FYs 2023-26 from the FY 2023 tentative assessment roll.⁷ Property tax revenue falls 6.1 percent year-to-year to \$29.408 billion in FY 2022 from the pandemic recession, but advances five percent in FY 2023. On a year-to-year basis, revenue growth slows noticeably thereafter at 0.8 percent in FY 2024, 0.6 percent in FY 2025, and 0.2 percent in FY 2026. The city assumes a larger-than-usual reduction of \$8.3 billion in taxable billable assessed value from the FY 2023 tentative to final assessment roll from Tax Commission

⁷ State law requires that the Department of Finance assign every property to one of four tax classes. Class 1 consists of one-, two- and three-family residential properties and small condominiums. Class 2 comprises all other residential properties, including cooperatives, condominiums, and multi-family rentals. Class 3 represents utility real properties. Class 4 consists of all other real properties, such as office buildings, factories, stores, and vacant lands.

actions, Department of Finance (DOF) changes by notice, and the completion of exemption processing.

During the plan period, there is subdued growth of 1.6 percent on an average annual basis, seen in Table 4 on page 14, that also reflects concerns over vacancies in the retail sector, uncertainty over the amount of office space required with remote/in-office work, preferences for new office buildings with amenities, and record high vacancy rates in the Manhattan office market. Based on current collections and historical trends, the city's property tax forecast may be exceeded by \$150 million in FY 2023, \$200 million in FY 2024, \$250 million in FY 2025, and \$300 million in FY 2026, as shown in Table 3 on page 5.

As a result of government restrictions on the activities of individuals and businesses during the depth of the pandemic, market value and taxable billable assessed value citywide declined 5.63 percent and 5.21 percent, respectively, which was reported in the FY 2022 final assessment roll and reflected in Table 5. In the FY 2022 report, the valuations of Class 2 rental properties and Class 4 office buildings, retail stores, and hotels were particularly negatively impacted.

FY 2023 TENTATIVE ROLL INDICATES REBOUND IN MARKET VALUE AND TAXABLE BILLABLE ASSESSED VALUE CITYWIDE AND BY PROPERTY CLASS

TABLE 5

(annual percent change)

Final FY 2020/21 vs Final FY 2021/22			Final FY 2021/22 vs Tentative FY 2022/23		
	Market Value	Taxable Billable AV		Market Value	Taxable Billable AV
Class 1	0.78%	3.56%	Class 1	6.67%	4.77%
Class 2	(8.22%)	(1.24%)	Class 2	8.71%	7.20%
Class 3	8.18%	8.32%	Class 3	5.23%	5.31%
Class 4	(17.42%)	(11.65%)	Class 4	11.72%	10.00%
Citywide	(5.63%)	(5.21%)	Citywide	8.18%	8.09%
Source: Department of Finance.					

Comparing the market value and taxable billable assessed value citywide, by class, and property types from the FY 2022 final roll to the FY 2023 tentative roll, it is remarkable how quickly and to what degree the rebound in valuations that occurred. The market value of all properties in the city is \$1.398 trillion, which represents a year-to-year increase of 8.18 percent, while taxable billable assessed value citywide rises 8.09 percent year-to-year to \$277.4 billion, which is presented in Table 5.⁸ Citywide construction activity created \$9.2 billion in new market value. Much of the improvement in the FY 2023 tentative roll is from market forces rather than due to physical and other changes. Besides overall improvement in Class 2 and Class 4, there are higher valuations for rentals, co-ops, and condos in Class 2 and office buildings, retail stores, and hotels in Class 4.

However, if market values and taxable billable assessed values by class and property type from the FY 2023 tentative roll are contrasted with the pre-pandemic FY

⁸ Department of Finance Publishes Fiscal Year 2023 Tentative Property Tax Assessment Roll, January 18, 2022.

2021 final roll, some of the current year-to-year results are not as robust as first thought. In this way, market value citywide rose 2.09 percent after comparing the rolls for FY 2021 and FY 2023, and market value declined 0.22 percent in Class 2 and 7.74 percent in Class 4 using the same two fiscal years. In terms of changes in taxable billable assessed value from FY 2021 to FY 2023, there were gains of 2.45 percent citywide and 5.87 percent for Class 2, but a decrease of 2.82 percent for Class 4.

EXPENDITURES

The February modification assumes a balanced budget in FY 2023 and total-funded spending of \$98.5 billion, a decrease of \$2.3 billion compared to the November modification. City-funded spending is projected at \$71 billion, which is \$2.4 billion less than the November modification. Lower expenditures in FY 2023 are primarily due to the use of \$3.7 billion of surplus funds from FY 2022 to prepay expenses in FY 2023. Between FYs 2022 and 2023, total funded expenditures decrease by more than \$8 billion reflecting the year-to-year difference in federal pandemic relief funding. Alternatively, city-funded spending is expected to increase by \$830 million denoting changes in year-to-year reserves and net higher costs in debt service, uniformed services, and education.

In each of FYs 2023-26, city-funded expenditures increase to address new needs in such areas as the Departments of Education, and Social and Homeless Services, and to also provide funding to the Fair Fares and Fair Futures initiatives, expand the summer jobs program, and make partial restoration to Hiring and Attrition Management savings. The added support boosts spending by more than \$800 million in each of FYs 2023 and 2024, rising to above \$900 million in each of FYs 2025 and 2026. Wisely, the city removes unidentified labor savings budgeted in each of FYs 2023-26 by the previous administration that were unlikely to be achieved adding \$500 million to each of those fiscal years. In addition, the city increases the general reserve by \$55 million in FY 2023.

Partly offsetting higher city-funded spending in each of FYs 2023-26 is a Program to Eliminate the Gap (PEG) that is expected to reduce expenses by more than \$1.1 billion, including revenue and debt service savings. Net of the PEG plan, city-funded expenses rise by \$369 million in FY 2023, \$300 million in FY 2024, \$405 million in FY 2025, and \$465 million in FY 2026. While the savings from the PEG plan mitigate higher spending in agencies and removal of labor savings, it falls short in reducing outyear gaps in each of FYs 2024-25. In the February modification, the gap in FY 2024 remains about the same, \$2.7 billion, falling by just \$10 million, and in FY 2025 rises to more than \$2.2 billion, an increase of \$94 million, as compared to the November modification. Alternatively, the gap in FY 2026 is projected to be \$3 billion, a decrease of \$920 million.

The February modification contains a general reserve of \$1.055 billion in FY 2023 and \$1 billion in each of FYs 2024-26. The capital stabilization reserve adds \$250 million to each of FYs 2023-26. In addition, \$1 billion is held in a rainy day fund. Departing from the city's accounting of total available reserves, we exclude the Retiree Health Benefits Trust of \$4.2 billion, which we have continued to argue should only be used to fund the growing Other Postemployment Benefits liability that is near \$118 billion, as of June 30, 2021. While these reserves will help to close the gaps in the outyears, the city still must address other budget items that will require further PEG plans.

Foremost, employee labor contracts are set to fully expire by CY 2023, which will require collective bargaining in the face of higher-than-usual inflationary pressure. We estimate that a one percent increase in wages for employees citywide, including the cost of pensions, may near half a billion dollars for a full year. The labor reserve only includes funding for one percent wage increases in the next round of collective bargaining beginning in the third year of the contract period but provides no funding for increases in the first two years of future settlements. Of equal concern, the city has allocated federal stimulus funds to either initiate, or expand services and programs, such as universal prekindergarten. The February modification provides no additional funding for these programs beyond FY 2025.

Expenditure Changes in FYs 2022-26

In its November modification, the city projected total-funded expenditures would grow from \$100.807 billion in FY 2023 to \$103.205 billion in FY 2025, or \$2.398 billion. The February modification assumes expenditures over the same period grow from \$98.536 billion to \$103.64 billion, or \$5.104 billion, as shown in Table 6. The difference in growth between plans, \$2.706 billion, is due to the decrease in FY 2023 of projected spending making growth between fiscal years much higher. As shown, city-funded spending in FY 2023 is expected to drop by \$2.399 billion net of FY 2022 surplus funds used to prepay expenses. A modest increase in federally-funded expenditures of \$128 million partially offsets the decrease. In FYs 2024 and 2025, plan-to-plan increases are driven by slightly higher federal, state, and other funds of \$53 million and \$30 million, respectively, augmented by city-funds of \$300 million and \$405 million, respectively.

TABLE 6

NOVEMBER TO FEBRUARY MODIFICATION TOTAL-FUND CHANGE FYs 2023-25

Total Funds (\$ in millions)

	FY 2023	FY 2024	FY 2025
November Modification	\$100,807	\$102,339	\$103,205
City Funds	(\$2,399)	\$300	\$405
Federal, State & Other Funds	<u>128</u>	<u>53</u>	<u>30</u>
Total Expense (Dec)/Inc	(\$2,271)	\$353	\$435
February Modification	\$98,536	\$102,692	\$103,640

City-funded expenditures, as shown in Table 7 on page 19, are projected to decrease between the November and February modifications by \$2.399 billion in FY 2023 and grow by \$300 million in FY 2024, \$405 million in FY 2025, and \$465 million in FY 2026. The decrease in FY 2023 is largely due to the FY 2022 prepayment of expenses, a Program to Eliminate the Gap (PEG), and debt service savings, which entirely offset agency new needs, removal of labor savings, increase to the general reserve, and budget adjustments. The city uses \$2.768 billion of surplus funds from FY 2022 to prepay expenses in FY 2023. The city has been able to continue to build large surpluses by recognizing higher revenues, debt service and expense savings, and drawing on reserves, measures that have all contributed to a total surplus of \$3.732 billion in FY 2022.

NOVEMBER TO FEBRUARY MODIFICATION CITY-FUND CHANGE FYs 2023-26

TABLE 7

City Funds (\$ in millions)

	FY 2023	FY 2024	FY 2025	FY 2026
November Modification	\$73,386	\$75,368	\$76,683	\$78,519
Agencies	\$876	\$836	\$934	\$951
Labor Adjustment	500	500	500	500
General Reserve	55	--	--	--
Budget Adjustments	51	68	88	134
PEG Plan	(1,061)	(1,034)	(1,039)	(1,050)
Debt Service	(52)	(69)	(77)	(70)
FY 2022 Prepayment	(2,768)	--	--	--
Net City-Funded (Dec)/Inc	(\$2,399)	\$300	\$405	\$465
February Modification	\$70,987	\$75,668	\$77,089	\$78,983
Numbers may not add due to rounding.				

The higher net spending in each of FYs 2024-26 is mainly for agency new needs, removal of labor savings, and budget adjustments that are only partially offset by the PEG plan and debt service savings. As shown in Table 7, agencies are expected to spend \$876 million more than projected in the November modification in FY 2023 rising to \$951 million in FY 2026. About half of this spending is in the Department of Education (DOE) to support charter school tuition and student transportation increasing expenses in FY 2023 by \$416 million growing to \$497 million in FY 2026. In the Departments of Homeless Services, Health and Mental Hygiene, and Aging, funding is added to tackle rising shelter costs, encourage family home visits, and deliver meals to older homebound residents. These supportive services add approximately \$172 million to these agencies collectively in each of FYs 2023-26.

The city provides funding to the Fair Fares and Fair Futures initiatives, and expands the Summer Youth Employment Program (SYEP). In each of FYs 2023-26, Fair Fares gains funding of \$75 million; Fair Futures is allocated about \$13 million; and SYEP is expanded by more than \$79 million.⁹ Elsewhere, the city makes a partial restoration to headcount savings previously budgeted. Hiring and Attrition Management followed a strict policy to allow only one new employee to fill a vacancy for every three employees leaving the city's workforce to slow down hiring and reduce headcount. To partly roll back the planned headcount reduction, the February modification adds \$77 million to FY 2023, \$78 million to FY 2024, and \$79 million to each of FYs 2025 and 2026. Also, the city removes unidentified labor savings budgeted in each of FYs 2023-26 adding \$500 million to each of those fiscal years, increases the general reserve by \$55 million in FY 2023, and makes budget adjustments of \$51 million in FY 2023 rising to \$134 million in FY 2026, largely supporting the World Trade Center Zadroga Fund.¹⁰

Partly offsetting higher city-funded spending in each of FYs 2023-26 is the implementation of a new PEG plan and debt service savings, which together account for

⁹ Fair Futures is a coalition of child welfare agencies, non-profits, foundations, advocates, and young adults working to ensure the betterment of the city's foster services.

¹⁰ The fund provides medical treatment for responders and survivors who experienced or may experience health complications related to the 9/11 terrorist attacks.

\$1.113 billion in reduced expenditures in FY 2023 rising to \$1.12 billion in FY 2026, as shown in Table 7 on page 19.¹¹ The city projects debt savings of \$52 million in FY 2023, \$69 million in FY 2024, \$77 million in FY 2025, and \$70 million in FY 2026.

In the DOE, PEGs total \$557 million in FY 2023 increasing slightly to \$559 million in FY 2026. These cost reductions in each of FYs 2023-26 include the reestimate of costs for central and administrative salaries, per session teaching, professional development, and equipment and supplies totaling \$57 million; identifying efficiencies summing to \$37 million; and the reevaluation of the Absent Teacher Reserve (ATR) at \$15 million, which includes the elimination of 125 positions in FY 2023.

Besides the ATR headcount reductions, the DOE identifies supplementary headcount eliminations. Much of the lower headcount is a result of pandemic related enrollment changes that caused a substantial drop in student attendance. Due to the decrease, the DOE expects to eliminate 3,227 positions in FY 2023 saving about \$375 million in each of FYs 2023-26. Also, the DOE will remove an additional 290 positions in FY 2023 by decreasing departmental and school safety vacancies realizing savings of \$74 million in FY 2023 growing to full savings of \$76 million by FY 2026.¹² Total citywide headcount eliminations, including at the DOE, amount to 7,026 positions in FY 2023. Not counting the DOE headcount savings, the eliminations save \$250 million in FY 2023, \$229 million in FY 2024, \$232 million in FY 2025, and \$236 million in FY 2026.

¹¹ In our analysis, we exclude from the PEG plan revenue of \$14 million in FY 2023 and \$9 million in each of FYs 2024-26, and debt service savings. The city exempts from the PEG the Departments of Correction, and Health and Mental Hygiene, Health + Hospitals, and Office of the Chief Medical Examiner, due to the unique challenges these agencies currently face.

¹² The February modification reverses a planned transfer of school safety agents out of the Police Department and into the DOE. The DOE will continue to pay the Police Department for the cost of the school safety division.

Total and City-Funded Expenditure Changes between FYs 2022 and 2023

Total-funded expenditures in FY 2023 are projected at \$98.536 billion, which is \$8.003 billion lower than FY 2022 expenditures of \$106.539 billion. As shown in the figure to the right, expenditures are driven down by a substantial drop in federal aid, which falls by \$8.629 billion. The lower aid reflects the waning receipt of pandemic stimulus funds. State and other funds are collectively lower by \$205 million.

City-funded spending, net of prepayments, increases by \$830 million between FYs 2022 and 2023, as shown in the figure to the right. City-funded expenses increase by a net \$2.188 billion before \$1.357 billion in net prepayments are applied.¹³ The February modification assumes net increases in Service Agencies and Other Expenditures of \$415 million and \$818 million, respectively, and the year-to-year adjustment in reserves totals \$955 million.

Expenditure Changes between FYs 2022 and 2023 City, Federal, State, & Other Funds (\$ in millions)			
	FY 2022	FY 2023	Change
Service Agencies	\$45,026	\$45,441	\$415
Uniformed	8,694	9,818	1,123
Health and Welfare	12,261	11,716	(544)
Mayoral	7,677	7,113	(564)
Covered Organizations	15,583	15,994	411
Elected Officials	810	800	(10)
Other Expenditures	\$27,155	\$27,973	\$818
Miscellaneous	10,790	10,692	(99)
Debt Service	6,577	7,761	1,184
Pensions	9,788	9,520	(268)
Reserves	\$350	\$1,305	\$955
Prior-Year Payables	(400)	--	400
General Reserve	250	1,055	805
Capital Stabilization	--	250	250
Rainy Day Fund	500	--	(500)
Subtotal	\$72,531	\$74,719	\$2,188
Prepayment Adjustment	(2,375)	(3,732)	(1,357)
Total City Funds	\$70,156	\$70,987	\$830
Federal Funds	18,014	9,385	(8,629)
State Funds	16,490	16,417	(73)
Other Funds	1,879	1,747	(132)
Total Fed, State & Other	\$36,383	\$27,549	(\$8,834)
Total Expenditures	\$106,539	\$98,536	(\$8,003)
Miscellaneous adjusted for PEG and capital stabilization reserve. Debt service is net of prepayments. Numbers may not add due to rounding.			

Projected Growth in Total-Funded Expenditures for FYs 2022-26

Total-funded expenditures, net of prepayment, are expected to decrease from \$106.539 billion in FY 2022 to \$104.56 billion in FY 2026, representing a decline in spending of \$1.979 billion, or 1.9 percent, as shown in Table 8 on page 22. Average annual change over the five-year period is a decrease of 0.5 percent. The decrease in spending is led by lower pension costs and Other Than Personal Service (OTPS) expenditures. Areas of growth are predominately in Fringe Benefits and Debt Service expenses. For a more detailed discussion of debt service costs, see "Management of the Capital Program and Associated Debt," beginning on page 28.

¹³ The year-to-year adjustment to the prepayment reflects the difference between the net prepayment of \$2.375 billion in FY 2022 and the prepayment of \$3.732 billion of debt service expenses in FY 2023.

PROJECTED TOTAL-FUNDED EXPENDITURE GROWTH FYs 2022-26

TABLE 8 Total Funds (yr/yr percent change, \$ in millions)

	FYs 2022-23	FYs 2023-24	FYs 2024-25	FYs 2025-26	FYs 2022-26	Level in FY 2022	Level in FY 2026	Avg Yr Change
Personal Service	(1.0%)	1.0%	0.5%	0.8%	1.3%	\$53,465	\$54,156	0.3%
Salaries and Wages	(2.0%)	0.3%	0.7%	1.0%	(0.1%)	31,235	31,197	0.0%
Pensions	(2.7%)	(6.4%)	(9.6%)	(7.5%)	(23.9%)	9,932	7,561	(6.6%)
Fringe Benefits	2.8%	8.6%	6.9%	4.9%	25.2%	12,297	15,398	5.8%
Other Than Personal	(16.2%)	(0.9%)	0.3%	(0.7%)	(17.4%)	\$50,088	\$41,395	(4.7%)
Medical Assistance	(0.8%)	0.0%	0.0%	0.0%	(0.8%)	6,546	6,494	(0.2%)
Public Assistance	0.0%	0.0%	0.0%	0.0%	0.0%	1,651	1,650	0.0%
Other OTPS	(19.3%)	(1.2%)	0.3%	(0.9%)	(20.6%)	41,892	33,251	(5.6%)
Debt Service	17.4%	4.1%	6.5%	9.0%	41.9%	\$6,764	\$9,597	9.1%
Reserves	--	--	--	--	--	\$750	\$1,250	--
General	--	--	--	--	--	250	1,000	--
Capital Stabilization	--	--	--	--	--	--	250	--
Rainy Day Fund	--	--	--	--	--	500	--	--
Other								
Intracity Expenses	--	--	--	--	--	(2,153)	(1,838)	--
Subtotal	(6.1%)	0.4%	0.9%	0.9%	(4.0%)	\$108,914	\$104,560	(1.0%)
Prepayment Adjustment	--	--	--	--	--	(2,375)	--	--
Total Net of Prepayment	(7.5%)	4.2%	0.9%	0.9%	(1.9%)	\$106,539	\$104,560	(0.5%)
Debt service is net of prepayments. Numbers may not add due to rounding.								

As shown in Table 8, pension costs are expected to fall from \$9.932 billion in FY 2022 to \$7.561 billion in FY 2026, a decrease of \$2.371 billion, or 23.9 percent. The average annual decline over FYs 2022-26 is 6.6 percent. The five actuarial pension funds realized an aggregate return of 25.8 percent in FY 2021, which raised combined assets to \$266.084 billion, an increase of \$52.507 billion. This strong return was fueled by extraordinary federal stimulus that has since waned. It is unlikely, however, for pension aggregate returns to be as robust in FY 2022. Markets have either corrected, or entered bear territory, at least once in recent weeks due to volatility and investor uncertainty rooted in tighter monetary policy, higher-than-usual inflation, protracted supply chain problems, and the war in Ukraine.¹⁴ As of January 2022, we estimate an aggregate return of just 0.97 percent, equating to an unexpected actuarial loss of 6.03 percent based on seven percent required rate of return, or Actuarial Interest Rate (AIR).¹⁵

There remains time until fiscal year end for improvement to occur, nevertheless, if the systems' combined asset return falls short of the AIR, the city will need to fund the shortfall, hence increasing pension costs. An unexpected actuarial loss or gain is phased in over a five-year period at 20 percent, 40 percent, 60 percent, 80 percent, and 100 percent.

¹⁴ A correction occurs when a major stock index, such as the S&P 500 or Dow Jones Industrial Average, declines by more than 10 percent (but less than 20 percent) from its most recent peak. It is called a correction because historically the drop often "corrects" and returns prices to their longer-term trend. A bear market, on the other hand, typically describes a condition in which securities prices fall 20 percent, or more, from recent highs amid widespread pessimism and negative investor sentiment.

¹⁵ The AIR is the required return on assets needed to fund future benefit payments earned by employees in the present.

As of January 2022, the actuarial loss is estimated to be \$1.374 billion, which we project would increase pension costs by \$275 million in FY 2024, \$550 million in FY 2025, and \$824 million in FY 2026. We estimate, for every one percentage point below the AIR, pension costs could rise by \$46 million in FY 2024, \$91 million in FY 2025, and \$137 million in FY 2026.

In OTPS, the February modification assumes a significant reduction to occur between FYs 2022 and 2026 with spending falling from \$50.088 billion to \$41.395 billion, a decrease of \$8.693 billion, or 17.4 percent. OTPS expenditures are driven down by a substantial drop in federal aid between FYs 2022 and 2023, as the receipt of pandemic relief rapidly tapers. Increasing total-funded spending are Fringe Benefits and Debt Service costs. Fringe Benefits are expected to rise by 25.2 percent between FYs 2022-26, increasing by \$3.101 billion from \$12.297 billion to \$15.398 billion, as shown in Table 8 on page 22. The average annual growth rate for this budget item is 5.8 percent over the plan period.

Included in Fringe Benefits expenses are Social Security taxes (also known as FICA), unemployment insurance, supplemental welfare benefits, workers' compensation, and health insurance. Of these components, the cost of health insurance is the largest expense. For active and retired city workers, projected healthcare costs are \$7.234 billion in FY 2022 rising to \$10.509 billion in FY 2026, or 45.3 percent over the financial plan. The growth is mostly due to the expected rise in premiums. The other area of growth is Debt Service, which is expected to increase by 41.9 percent over FYs 2022-26, as shown in Table 8 on page 22. The February modification indicates the cost will grow by \$2.833 billion, rising from \$6.764 billion to \$9.597 billion, excluding prepaid debt service expenses.

Projected Growth in City-Funded Expenditures for FYs 2022-26

The February modification projects total city-funded expenditures, net of prepaid expenses, to grow by 12.6 percent, or \$8.827 billion, between FYs 2022 and 2026, increasing from \$70.156 billion to \$78.983 billion, as shown in Table 9 on page 24. The expected average annual growth rate over the plan period is three percent.

PROJECTED CITY-FUNDED EXPENDITURE GROWTH FYs 2022-26

TABLE 9 City Funds (yr/yr percent change, \$ in millions)

	FYs 2022-23	FYs 2023-24	FYs 2024-25	FYs 2025-26	FYs 2022-26	Level in FY 2022	Level in FY 2026	Avg Yr Change
Service Agencies	0.9%	1.0%	1.7%	1.3%	5.0%	\$45,026	\$47,285	1.2%
Uniformed	12.9%	0.1%	0.1%	0.0%	13.1%	8,694	9,830	3.1%
Health and Welfare	(4.4%)	0.2%	0.2%	0.2%	(3.8%)	12,261	11,791	(1.0%)
Mayoral	(7.3%)	0.1%	(0.2%)	(0.5%)	(7.9%)	7,677	7,071	(2.0%)
Covered Organizations	2.6%	2.5%	4.7%	3.6%	14.2%	15,583	17,802	3.4%
Elected Officials	(1.3%)	(1.1%)	0.0%	0.0%	(2.3%)	810	791	(0.6%)
Other Expenditures	3.0%	2.0%	2.2%	4.4%	12.1%	\$27,155	\$30,448	2.9%
Miscellaneous	(0.9%)	7.9%	8.3%	8.8%	25.9%	10,790	13,588	5.9%
Debt Service	18.0%	4.3%	6.7%	9.3%	43.6%	6,577	9,444	9.5%
Pensions	(2.7%)	(6.5%)	(9.8%)	(7.7%)	(24.2%)	9,788	7,417	(6.7%)
Reserves	--	--	--	--	--	\$350	\$1,250	--
Prior-Year Payables	--	--	--	--	--	(400)	--	--
General Reserve	--	--	--	--	--	250	1,000	--
Capital Stabilization	--	--	--	--	--	--	250	--
Rainy Day Fund	--	--	--	--	--	500	--	--
Subtotal	3.0%	1.3%	1.9%	2.5%	8.9%	\$72,531	\$78,983	2.2%
Prepayment Adjustment	--	--	--	--	--	(2,375)	--	--
Total Net of Prepayment	1.2%	6.6%	1.9%	2.5%	12.6%	\$70,156	\$78,983	3.0%
Miscellaneous is adjusted for capital stabilization reserve, energy, leases, inflation estimates, and savings initiatives.								
Debt service is net of prepayments.								
Numbers may not add due to rounding.								

As shown in Table 9, Service Agencies grow by five percent over FYs 2022-26. The primary sources of growth in Service Agencies are Covered Organizations and Uniformed Agencies growing at 14.2 percent and 13.1 percent, respectively. The increases in these budget areas are partially offset by lower projected spending among agencies in the Health and Welfare, and Mayoral categories, and for the offices of Elected Officials.

Covered Organizations encompass the Department of Education (DOE), City University of New York (CUNY), and Health + Hospitals. The February modification indicates city-funded spending in the DOE will rise by \$2.356 billion, from \$13.803 billion in FY 2022 to \$16.158 billion in FY 2026, representing growth of 17.1 percent. The city allocates an additional \$80 million to support the CUNY system of colleges, increasing its annual funding from \$925 million in FY 2022 to \$1.005 billion in FY 2026, or by 8.7 percent. In Health + Hospitals, the city's annual subsidy falls by \$230 million between FYs 2022 and 2023 from \$856 million to \$626 million, respectively, and remains constant at \$638 million in each of FYs 2024-26.

Also in Service Agencies are Uniformed Services (Police, Fire, Correction and Sanitation Departments) expenditures, which are expected to increase by 13.1 percent over the plan period. The four agencies are budgeted to spend a combined \$8.694 billion in FY 2022 rising to \$9.83 billion in FY 2026, which is an increase of \$1.136 billion. This growth over FYs 2022-26 recognizes one-time federal funds for COVID-19 that reduce expenditures in the Police, Correction and Sanitation Departments in FY 2022 compared to baseline projected spending of \$9.8 billion in each of FYs 2023-26.

A portion of Uniformed Services spending is overtime expenditures, which account for about nine percent of this budget area. The February modification assumes

overtime spending for Uniformed Services, including civilians, of \$1.137 billion in FY 2022 and approximately \$900 million in each of FYs 2023-26. Excluding civilians, overtime costs for uniformed personnel are projected to be \$1.002 billion in FY 2022 and about \$800 million in FYs 2023-26. Through January 2022, actual overtime expenditures for only uniformed personnel totaled \$919 million, which is \$460 million more than through October 2021. Based on these actuals, we believe that uniformed personnel, excluding civilians, for the four agencies combined will log total overtime of \$1.575 billion by the end of FY 2022. Our risk assessment over the life of the plan, as shown in Table 3 on page 5, projects a funding shortfall of \$573 million in FY 2022, \$772 million in FY 2023, and \$780 million in each of FYs 2024-26. While we recognize that the pandemic has negatively impacted these vital agencies, overtime spending has always been a prominent risk to the city's budget.

In the Other Expenditures budget area, which includes Miscellaneous, Debt Service, and Pension costs, projected growth is 12.1 percent for FYs 2022-26. The increase is driven by higher growth in Miscellaneous and Debt Service expenses at 25.9 percent and 43.6 percent, respectively. The growth in these budget areas partially offsets the 24.2 percent decrease in pension costs projected over FYs 2022-26. Higher miscellaneous spending reflects the year-to-year increase in labor reserve funding, health insurance, and reserves over the financial plan.

Education

Foundation aid is the largest portion of unrestricted state aid that public school districts receive, which considers school district wealth and student needs to create an equitable distribution of funding to schools. However, since its inception, the state has never fully funded foundation aid as required. On October 14, 2021, the state reached an agreement to settle and discontinue the New Yorkers for Students' Educational Rights v. New York State case, following through on the state's commitment to fully fund the current foundation aid formula over three years and ending its previous resistance to provide full funding.

The settlement, ongoing since 2014, follows the Campaign for Fiscal Equity cases and requires the state to phase in full funding of foundation aid by the FY 2024 budget.¹⁶ The state had committed in SFY 2022 \$19.8 billion to funding foundation aid, covering 30 percent of the existing shortfall. In SFY 2023, the allocation increases to \$21.3 billion, covering 50% of the anticipated shortfall, and approximately \$23.2 billion in SFY 2024, eliminating the anticipated shortfall, and funding the full amount of foundation aid for all school districts. For the city, the state is allocating in its executive budget for SFY 2023

¹⁶ The Campaign for Fiscal Equity (CFE) filed a lawsuit in 1993 against the state contending public schools did not provide students with a "sound basic education," such as basic literacy in math and writing, due to a lack in funding. In 2003, the State Court of Appeals ruled in CFE's favor. As a result, state legislature adopted the State Education Budget and Reform Act of 2007 to increase school aid over the next four years by \$7 billion annually, including \$3.2 billion for the city. The reform bill consolidated 30 aid programs, which became foundation aid with the goal of better targeting aid to school districts showing insufficient financial resources.

\$8.976 billion in foundation aid, up by \$346 million from SFY 2022. Total education aid, including foundation aid, from the state is expected to be \$12.332 billion in SFY 2023 versus \$11.8 billion in SFY 2022, an increase of \$532 million.

Collective Bargaining

The Office of Labor Relations reports that the city has reached agreements with almost 93 percent of its workforce, representing both civilian and uniformed employees, for the 2017-2021 round of collective bargaining, the most recent being with the Uniformed Firefighters Association and the Detectives' Endowment Association. Both of these agreements follow the pattern negotiated with the Uniformed Officers Coalition. The Patrolmen's Benevolent Association (PBA) is the only major union that has yet to reach a new contract agreement with the city due to an impasse in negotiations. Initially, the PBA sought arbitration with the New York State Public Employment Relations Board (PERB) to resolve the impasse. After the PERB affirmed a stalemate between the PBA and the city, mediation proceeded but failed to resolve the impasse. Now, an arbitration panel will determine a final and binding decision. The city has fully funded the labor reserve for the cost of the PBA contract following the pattern negotiated with the Uniformed Officers Coalition.

Agreements settled in the 2017-2021 round of bargaining will fully expire by CY 2023, half of which expire in CY 2022. The labor reserve only includes funding for one percent wage increases in the next round of collective bargaining beginning in the third year of the contract period but provides no funding for increases in the first two years of future settlements. We estimate that a one percent increase in wages for employees citywide, including the cost of pensions, may near half a billion dollars for a full year. Absent funding for the first two years for any contract agreement, and facing extraordinary inflationary pressures, the fiscal impact of the next contract settlements is likely to be of material size.

State Executive Budget

In January 2022, Governor Kathy Hochul presented a \$216 billion executive budget for SFY 2023 with zero outyear gaps through 2027, a first in state budget history. Vaccinations and eased restrictions, increased tax receipts, and federal funding facilitated the outcome of the executive budget, in comparison to January 2021, when federal funding was uncertain, restrictions were implemented across the state, COVID-19 cases were surging nationally, and the state was projecting a \$39 billion revenue shortfall over the next four years.

Highlights of the executive budget include \$2 billion for property tax relief for SFY 2023; \$2 billion for pandemic recovery initiatives in SFY 2022; \$1 billion to enlarge the Department of Transportation capital plan over SFYs 2023-2025; \$1 billion for health care transformation in SFYs 2023 and 2024; \$1 billion for healthcare and frontline workers bonuses in SFY 2023; and \$350 million for pandemic relief for business, and theater and musical arts in each of SFYs 2023 and 2024.

The executive budget intends to use increased tax receipts to raise reserves to 15 percent of state operating funds by SFYs 2024-25. This will be accomplished through

annual deposits into the state's two statutory funds, the Tax Stabilization and Rainy Day Reserves.¹⁷ The funds are only to be used for times of economic uncertainty. To accomplish these savings levels, the executive budget includes language to amend the current Rainy Day Reserve statute, allowing for increased deposits and balance requirements.

The city is expected to receive \$20 billion in total state funding through major local aid programs in FY 2023. This includes \$12.4 billion in school aid and \$2.6 billion from the state takeover of the local Medicaid growth. Additionally, the city receives \$108 million of transportation aid that includes funding for State Touring Routes, the Consolidated Local Street and Highway Improvement Program (CHIPS), PaveNY, Extreme Winter Recovery Aid, and Operation Pave Our Potholes. However, the executive budget proposes to make the intercept of sales tax for the Distressed Provider Health Assistance Program permanent, which diverts \$200 million annually from city coffers. We will monitor these proposals upon enactment of the state budget due April 1, 2022.

In addition, the state has included legislation that would have a fiscal impact on the city. The state has proposed a bill that would increase the small business subtraction modification for taxpayers from five percent of fifteen percent of the net business, or net farm income, included in the taxpayer's federal adjusted gross income from such small businesses. Additionally, this bill would expand the definition of a small business to include a limited liability company, partnership, or S corporation that is not a farm business. The bill would negatively impact the state at \$20 million. A second bill requires vacation rental marketplace providers to collect sales tax on vacation rentals that they facilitate. This would generate a total of \$28.3 million in revenues for the state. These two pieces of legislation have a net positive impact of \$8.3 million on the city.

City's Proposed Legislation

The city has proposed legislative initiatives that would require approval by the state legislature and the governor's signature for enactment. The city proposed three revenue bills with significant fiscal impacts. The first includes language to expand the Earned Income Tax Credit to thirty percent from an existing five percent that will require a 50 percent match from the state. If enacted, the anticipated total cost is \$500 million with the city and state budgets impacted by \$250 million each. The second legislative proposal is related to child care property tax abatement for property owners in the city to create a

¹⁷ The Tax Stabilization Reserve was created pursuant to state law to provide a reserve to finance a cash-basis operating deficit in the General Fund at the end of the fiscal year, and to make temporary loans to the General Fund during the year. Annual deposits may not exceed 0.2 percent of General Fund spending, and the balance may not exceed two percent of the General Fund spending. These amounts may be borrowed to cover an operating deficit at year end, but these loans must be repaid within six years in no fewer than three annual installments.

The Rainy Day Reserve was created pursuant to state law to account for funds set aside for use during economic downturns or in response to a catastrophic event, as defined in the law. The economic downturn clause is triggered after five consecutive months of decline in the state's composite index of business cycle indicators. The reserve may have a maximum balance equal to five percent of projected General Fund spending during the fiscal year immediately following the then-current fiscal year.

new child care center, or expand an existing center, which would cost the city \$25 million annually. Finally, the city introduced legislation for a child business tax credit where businesses would receive a break for providing, or expanding, child care slots. This potential credit has a city fiscal impact of \$25 million annually.

MANAGEMENT OF THE CAPITAL PROGRAM AND ASSOCIATED DEBT

In the February modification, the city outlined a five-year capital plan for FYs 2022-26 that totals a record high level of \$100 billion in authorized commitments, representing a small reduction compared to the capital plan released in October 2021. The capital program supports the infrastructure, facilities, equipment and technology that strengthen the city's economic viability. The vast majority of the capital program is financed by the sale of tax-supported bonds issued by the city and the New York City Transitional Finance Authority (NYCTFA). Additionally, environmental protection projects are financed by the sale of bonds by the New York City Municipal Water Finance Authority (NYW) that are backed by city water and sewer user fees. The city receives some noncity funds from the state and federal government to support its capital program.

The city's capital plan is separate from but related to the expense budget. The annual debt service costs on the tax-supported bonds are included in the operating budget. Given the growth in capital commitments, debt service costs will require an increasing portion of the city tax revenues over the financial plan period. Even though the city projects undertaking an immense capital program over FYs 2022-26, the assumed debt service expense as a percentage of tax revenues will remain below the affordability threshold of 15 percent. To support the capital plan, the city projects issuing a combined \$51 billion of city general obligation (g.o.) and NYCTFA Future Tax Secured (FTS) bonds over FYs 2022-26.

According to the city's calculations, available debt-incurring power set by the authorized limit is projected to shrink to \$4.5 billion by FY 2026. In response to the decline in debt-incurring power and to maintain the city's ability to carry out its long-term capital program, the Mayor requested the state legislature to increase the borrowing capacity of the NYCTFA by \$19 billion, augmenting the amount of bonds outstanding by the NYCTFA that will not count against the city's g.o. debt limit to \$32.5 billion. However, the City Comptroller requested that the Mayor's proposal be rejected until further review is done on the city's capital program and the resources available to fund the program.

Based on our analysis, the city has not demonstrated the ability to carry out the large level of commitments projected in its current capital plan. As a result, we agree that further review is needed on the capital program as well as more consideration should be given to establishing a realistic capital program that the city can practically undertake and manage.

Five-Year Authorized Commitment Plan

In the city's February modification, the five-year capital plan for FYs 2022-26 amounts to \$100 billion in total-funded authorized commitments.¹⁸ As shown in the figure to the right, the level of authorized capital commitments for FYs 2022-26 included in the current modification compared to the same five-year period in the capital plan released in October 2021 represents a net reduction of \$376 million. The city chose to decrease commitments in the first two years of the plan, FYs 2022-23, by \$3.7 billion and to increase commitments in the latter years of the plan by a net \$3.3 billion.

Authorized Commitments Feb 2022 Capital Plan Net Decrease Compared to Oct 2021 Plan (\$ in millions)		
<u>FY</u>	<u>Total-Funded Commitments</u>	<u>Change</u>
2022	\$19,628	(\$2,275)
2023	20,674	(1,382)
2024	21,409	2,198
2025	19,009	1,825
2026	<u>19,278</u>	<u>(742)</u>
Total	\$99,998	(\$376)

We broadly outline the capital plan with authorized commitments grouped into functional areas by city-funded and total-funded levels as well as the changes compared to the prior capital five-year plan. As illustrated in Table 10 on page 30, city-funded commitments amount to \$95.4 billion representing a \$398 million reduction and total-funded commitments amount to almost \$100 billion reflecting a \$376 million decrease. Based on the plan review as shown in Table 10 on page 30, there is a net increase to both total- and city-funded commitments included in the infrastructure area while there is a net decrease to commitments in the non-infrastructure area.¹⁹ The following analysis highlights the areas with the most sizeable changes in city-funded commitments.

¹⁸ The authorized level of commitments exceeds what the city expects to undertake to allow for potential delays, changes in project scope and other adjustments to projects. The city itemizes its capital program by functional areas based on authorized levels.

¹⁹ In distinguishing infrastructure from non-infrastructure areas, we use the traditional public works definition of infrastructure and include the agencies that are responsible for physical assets indispensable to economic activity such as transportation, transit and environmental protection.

FIVE-YEAR CAPITAL PLAN FOR FYs 2022-2026 AUTHORIZED COMMITMENTS

TABLE 10

(\$ in millions)

February Modification 5-Year Capital Plan FYs 2022-26	February 2022 City Funds	February 2022 Total Funds	Change from Oct 2021 City Funds	Change from Oct 2021 Total Funds
<u>Total Program</u>	\$95,410	\$99,998	(\$398)	(\$376)
<u>Infrastructure Total</u>	\$29,705	\$31,548	\$277	\$286
Transportation and Transit	15,359	16,736	794	845
Environmental Protection	14,346	14,813	(517)	(559)
<u>Non-Infrastructure Total</u>	\$65,706	\$68,449	(\$675)	(\$662)
Education-DOE & CUNY	17,749	17,817	(1)	(1)
Public Safety	11,877	12,059	29	28
Housing	10,789	10,949	6	6
Gen. & Business Services, Equip. & Energy Efficiency	10,615	11,381	(483)	(453)
Cultural, Libraries & Parks	7,765	8,219	(229)	(248)
Hospitals, Health & Social Services	6,911	8,025	4	6
Numbers may not add due to rounding.				

Infrastructure areas including Transportation and Transit, and the Department of Environmental Protection (DEP) represent a net \$277 million increase in city-funded capital commitments, with the majority of the growth included the Department of Transportation (DOT). With a net \$794 million increase since the October 2021 plan, capital commitments in the February modification for the DOT and the Transit Authority sum to \$15.4 billion, as displayed in Table 10. The growth in this area partially offsets the combined \$1.2 billion reduction in the other areas of the city's program. The greater part of the added commitments is for the DOT's capital projects totaling \$787 million that mainly include essential improvements to highway bridges and structures citywide.

The Department of Environmental Protection (DEP) is planning to undertake \$14.3 billion of capital commitments to ensure the water and sewer systems are maintained. DEP's combined capital commitments have been reduced by a net \$517 million in the current capital plan compared to the prior plan. The majority of the decrease is to water pollution control and water main projects totaling \$510 million, which involve the reconstruction of water pollution control plants and combined sewer overflow abatement facilities citywide as well as improvements to water main structures including equipment on water sheds outside the city.

The city-funded commitments included in non-infrastructure represent a net \$675 million decline, with the majority of the reductions in two areas: General & Business Services, Equipment & Energy Efficiency; and Cultural, Libraries & Parks. As shown in Table 10, at \$10.6 billion, commitments in the current plan for the General & Business Services area were decreased by a net \$483 million. Funding has been reduced for projects in the city's comprehensive energy management strategy including energy efficiency and sustainability as well as for the purchase of electronic data processing software and hardware. In addition, reductions are planned for projects in the Department of Small

Business Services for the modernization and reconstruction of piers citywide as well as international business development initiatives. The city has also chosen to decrease commitments for public building projects, such as improvements to buildings and long-term leased facilities citywide.

The area of Cultural, Libraries & Parks represents \$7.8 billion of the city's five-year capital plan reflecting a net reduction of \$229 million compared to the last plan. The Department of Parks and Recreation, whose main responsibilities include providing and maintaining open space and recreational facilities in the city, had the majority of the decrease to capital improvement projects for parks in all boroughs at \$216 million.

Capital Funding

The February modification contains targeted levels of commitments, which are the amounts the city expects to enter into given the logistical constraints of implementing the capital program. The projected financing schedule and debt service costs are based on these amounts. As illustrated in the figure to the right, the city projects entering into approximately \$90 billion of targeted capital commitments in the February modification

FYs 2022-26 Capital Plan Change from Oct 2021 by Funding Source (\$ in millions)		
	Targeted Commitments	Change
Tax-Supported	\$72,650	\$139
NYW-Supported	12,707	(553)
City-Funded	\$85,357	(\$414)
Noncity-Supported	4,589	23
Total-Funded	\$89,946	(\$391)

over FYs 2022-26. The city expects undertaking \$72.7 billion of new contracts that are backed by tax-supported city general obligation (g.o.) and NYCTFA FTS bonds. This amount represents a \$139 million increase since the release of the October 2021 plan. Additionally, the city plans to enter into \$12.7 billion of commitments for environmental protection projects that will be supported by fee-based revenue bonds sold by the New York City Municipal Water Finance Authority (NYW). This amount represents a decline of \$553 million, which is driving the overall net decrease in both city- and total-funded levels. As illustrated in the figure, the city expects to receive approximately \$23 million more in noncity funds to support its capital plan, increasing noncity-funded contracts to \$4.6 billion.

Given the substantial size of the projected five-year capital plan at \$90 billion, it is questionable as to whether the city will be able to undertake such a high level of commitments. In order to review the city's implementation of its capital program, we did a comparative analysis of the actual commitments undertaken in the prior five fiscal years and the projected commitments in the February modification. When the projected targeted commitments in the five-year capital plan are compared to adjusted actual commitments undertaken in the last five years, FYs 2017-21, there is a considerable increase in and a shift to proportionally more funding provided by tax-supported bonds issued by the city and NYCTFA, as presented in Table 11 on page 32. Even after creating an equitable analysis by making an adjustment to the level of commitments in FYs 2020-

21, which were limited by the impact of the pandemic, the increase in FYs 2022-26 commitments is quite sizeable.²⁰

FIVE-YEAR COMPARATIVE ANALYSIS OF CAPITAL COMMITMENTS

TABLE 11 (\$ in millions)

Sources of Financing	FYs 2022-26		FYs 2017-21		Increase	Percent Change
	Feb 2022 Plan	Percent of Total	Adjusted Actuals*	Percent of Total		
G.O./NYCTFA	\$72,650	81%	\$47,665	76%	\$24,985	5%
Water Authority	<u>12,707</u>	<u>14%</u>	<u>10,780</u>	<u>17%</u>	<u>1,927</u>	<u>(3%)</u>
City Funds Total	85,357	95%	58,445	93%	26,912	2%
NonCity Funds Total	4,589	5%	4,494	7%	95	(2%)
Total	\$89,946	100%	\$62,939	100%	\$27,007	--
*FYs 2020-21 actual amounts were adjusted to take into account the restrictions on undertaking capital commitments due to the impact of the pandemic. Numbers may not add due to rounding.						

Based on our comparative analysis, the city projects undertaking an additional \$27 billion in commitments over FYs 2022-26, with the overwhelming majority of the growth in commitments being funded with tax-supported bonds at \$25 billion. We estimate that in FYs 2017-21 the city could have undertaken an average \$9.5 billion tax-supported commitments annually based on adjusted amounts. In the current five-year capital plan, the city is projecting undertaking an average \$14.5 billion annually in commitments, which is an additional \$5 billion compared to the adjusted average undertaken in FYs 2017-21. In FYs 2012-16, the city entered into tax-supported commitment amounts ranging from \$3.8 billion to \$6.1 billion, which was between 64 percent and 90 percent of the annual target projected by the city. Even though the city's commitment achievement level has improved in the recent fiscal years, we are doubtful that the current amount of commitments in the plan will be attainable. Consequently, we believe more consideration needs to be given to establishing a realistic capital program that the city can practically undertake and manage before a request for additional borrowing should be determined.

Debt Service Costs

Debt service costs in the operating budget are driven by the portion of the city's capital program that is financed with tax-supported debt. Since the release of the November modification, city and NYCTFA debt service projections have been adjusted to recognize the terms of actual bond transactions and current assumptions on the timing of future financing deals. The present debt service projections capture interest savings on outstanding variable rate debt and more favorable terms on actual new money bond sales than had been estimated. Additionally, the present debt service forecast is based on a reduced financing schedule for FYs 2022-26 than had been assumed previously. According to the current borrowing schedule to fund the capital plan, the city plans

²⁰ To make the five-year comparison more equitable, we adjusted the actual amounts of commitments undertaken in FYs 2020-21 to account for the PAUSE restrictions through June 2020 and the city's choice to limit capital projects to ensure there were enough resources to deal with the immediate health emergency that continued through January 2021. We applied the growth rates the city achieved between FYs 2018-19 to estimate more realistic growth in capital commitments supported by each funding source in FYs 2020 and 2021 for a more balanced comparative analysis.

issuing \$51 billion of tax-supported bonds over FYs 2022-26, which represents a combined net \$410 million less in city g.o. and NYCTFA FTS bonds. Consequently, debt service projections for the city and NYCTFA have declined on a plan-to-plan basis. Compared to projections from the November 2021 modification, debt service costs in the February 2022 modification are lower by \$27 million in FY 2022, \$52 million in FY 2023, \$70 million in FY 2024, \$77 million in FY 2025 and \$70 million in FY 2026, as depicted in Table 11. However, debt service costs are forecasted to grow robustly from \$6.8 billion in FY 2022 to \$9.6 billion in FY 2026, for an average annual growth rate of 9.1 percent, while tax revenues are projected to grow by an average annual rate of only 2.5 percent.

PROJECTED TOTAL-FUNDED CITY AND NYCTFA DEBT SERVICE COSTS REMAIN AFFORDABLE

TABLE 12 (\$ in millions)

February 2022 Modification Debt Service Burden	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	Average Annual Growth
City and NYCTFA Debt Service	\$6,764	\$7,942	\$8,265	\$8,803	\$9,597	9.1%
Tax Revenues	64,030	65,872	67,774	69,642	70,735	2.5%
Debt Service as Percent of Tax Revenues	10.6%	12.1%	12.2%	12.6%	13.6%	
Change since November Modification						
Debt Service	(27)	(52)	(70)	(77)	(70)	
Tax Revenues	1,603	435	210	207	1,300	
Debt Service Burden	(0.3%)	(0.2%)	(0.1%)	(0.1%)	(0.4%)	

Debt service costs are paid mainly from tax revenues. In addition to scaling down debt service costs, the February modification raised the tax revenue forecast for each of FYs 2022-26 compared to the assumptions in the November modification, improving the debt service burden for these years. Table 12 shows debt service as a percent of tax revenues steadily rising from 10.6 percent in FY 2022 to 13.6 percent in FY 2026, improving on a plan-to-plan basis by a range of 0.1 to 0.4 percentage points. Even though the burden is estimated to increase by three percentage points over the financial plan period, the portion of tax revenue required to pay debt service is projected to remain under the 15 percent affordability level in each fiscal year.

Although substantial, the capital commitment plan appears to be affordable within the confines of the debt service burden as well as within the current debt-incurring power levels. Based on our analysis, it is uncertain as to whether the city can achieve the level of capital commitments projected in the current modification. For these reasons, we believe more time and review is needed to make a comprehensive determination if additional borrowing is needed to support the capital plan. The following describes the Mayor's request for additional NYCTFA borrowing and the City Comptroller's reasons why the request should be rejected, as well as background information on the Authority.

NYCTFA Borrowing Increase Request and Background

In January 2022, the Mayor requested state legislation to provide \$19 billion of additional borrowing capacity to the New York City Transitional Finance Authority

(NYCTFA) in support of the city to carry out its long-term capital program. The city wants to raise the amount of NYCTFA outstanding bonds that will not count against the city's general obligation (g.o.) debt limit to \$32.5 billion. The Mayor submitted this proposal because of reduced property values, which are used to determine the borrowing capacity for the city's capital program. The existing constitutional debt limit for city g.o. bonds is ten percent of the five-year average of the full value of taxable city real property. The current enabling NYCTFA legislation allows the Authority to have outstanding \$13.5 billion of Future Tax Secured (FTS) bonds and also permits the Authority to issue additional FTS bonds provided the amount together with the amount of indebtedness of the city does not exceed the debt limit of the city. According to the city, as of February 28, 2022, the city's and the Authority's combined remaining debt-incurring power was approximately \$43.1 billion. As of February 1, 2022, the combined city and Authority debt-incurring capacity for FY 2026 was projected to decrease to \$4.5 billion. This city projection was based on forecasts of both real property values and city capital commitments. The statutory debt limits are binding on the Authority but are not covenants with bondholders and are subject to change by legislation adopted by the state.

In March 1997, the state legislature approved the law (the Act) authorizing the creation of the NYCTFA as a public benefit corporation, whose primary purpose is to finance a portion of the city's capital improvement plan. The NYCTFA was initially permitted to sell \$7.5 billion of bonds secured by the city's personal income tax and sales tax revenues at a time when the city had virtually exhausted its capacity to enter into new capital contracts under the constitutional debt limit for g.o. bonds. Originally, the NYCTFA was created with the expectation that its power to sell bonds for new capital projects would expire with the enactment of an anticipated constitutional amendment to change the methodology used to calculate the city's g.o. debt limit. The state has not amended the constitution to augment the g.o. debt limit, but instead increased incrementally the NYCTFA's bonding authority by amending the Act. In June 2000, when the remaining g.o. debt incurring margin fell further, the bonding authority of the NYCTFA was increased to \$11.5 billion and in June 2006, the Authority was permitted to have \$13.5 billion in outstanding debt. In July 2009, state legislation was enacted to permit the NYCTFA to exceed this limit of \$13.5 billion if the additional amount at issuance together with the amount of city g.o. indebtedness does not exceed the existing constitutional debt limit for g.o. bonds.

In addition, in response to the Campaign for Fiscal Equity legal challenge, in April 2006, state legislation was enacted to enable the Authority to have outstanding up to \$9.4 billion of debt to be used solely to fund costs of the five-year educational facilities capital plan for the city's school system. The bonds, Building Aid Revenue Bonds (BARBs), are secured by state building aid, subject to annual appropriation by the New York State Legislature, payable to the city and assigned to the NYCTFA. Currently under this authorization, the amount of BARBs outstanding is approximately \$8.1 billion, which is separate from the calculations of the FTS bond limits and debt-incurring power of the city.

The City Comptroller has requested that the Mayor's proposal to increase the NYCTFA's borrowing capacity be tabled. The Comptroller believes the request is premature, stating the conversation about debt capacity should start from an assessment of actual infrastructure needs and the capacity to meet these needs over the coming years,

which was not part of the city's proposal. In addition, the Federal Infrastructure Investment and Jobs Act, signed into law in November 2021, needs more clarification to determine what resources will be made available to the city. The Comptroller would also like a clearer picture of the city's long-term finances, particularly regarding the pandemic's impact on property values, which have yet to settle into predictable patterns following the historic decreases caused by the pandemic. Rather than pursue an arbitrary increase, the Comptroller believes the city should seek to set an investment level tied to projected revenues. The Comptroller also considers this a critical opportunity to reform the city's capital project management practices in order to maximize limited resources.

We believe there are valid rationales regarding the need for more review to justify an increase in borrowing capacity for the NYCTFA. In the event the NYCTFA is granted additional borrowing capacity allowing the city to increase bond issuance, the resulting growth in debt service costs would require more tax revenues consequently putting greater pressure on the city's operating budget and potentially creating a burden that is unaffordable. Another concern is that the additional borrowing capacity for the NYCTFA may erode its credit rating. The value of the NYCTFA as a separate financing vehicle with a higher credit than the g.o. bonds is that it provides the city with a debt instrument with a lower interest cost thereby creating savings. If the NYCTFA's credit rating is lowered, these savings may be lost.²¹

²¹ The NYCTFA senior and subordinate bonds are rated AAA with a stable outlook by S&P Global Ratings and Fitch Ratings, while Moody's Investors Service maintains ratings of Aaa and Aa1 on the Authority's senior and subordinate bonds, respectively, with a stable outlook. The city g.o. bonds are rated AA by S&P Global Ratings, AA- by Fitch Ratings, Aa2 by Moody's Investors Service and AA+ by Kroll Bond Rating Agency. All credit agencies assign a stable outlook to the city g.o. bonds.

IV. Glossary of Acronyms

AIR	Actuarial Interest Rate
ARPA	American Rescue Plan Act
ATR	Absent Teacher Reserve
BARBs	Building Aid Revenue Bonds
CARES	Coronavirus Aid, Relief, and Economic Security Act
CFE	Campaign for Fiscal Equity
CHIPS	Consolidated Local Street and Highway Improvement Program
CRF	Coronavirus Relief Fund
CUNY	City University of New York
CY	Calendar Year
DEP	Department of Environmental Protection
DOE	Department of Education
DOF	Department of Finance
DOT	Department of Transportation
EITC	Earned Income Tax Credit
FCB	Financial Control Board
FEMA	Federal Emergency Management Agency
FICA	Federal Insurance Contributions Act
FTS Bonds	Future Tax Secured Bonds
FY	Fiscal Year
G.O. Bonds	General Obligation Bonds
NYCTFA	New York City Transitional Finance Authority
NYW	New York City Municipal Water Finance Authority
OTPS	Other Than Personal Service
PBA	Patrolmen's Benevolent Association
PEG	Program to Eliminate the Gap
PERB	New York State Public Employment Relations Board

PIT	Personal Income Tax
RHBT	Retiree Health Benefits Trust
SFY	State Fiscal Year
STAR	School Tax Assessment Relief Program
SYEP	Summer Youth Employment Program

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